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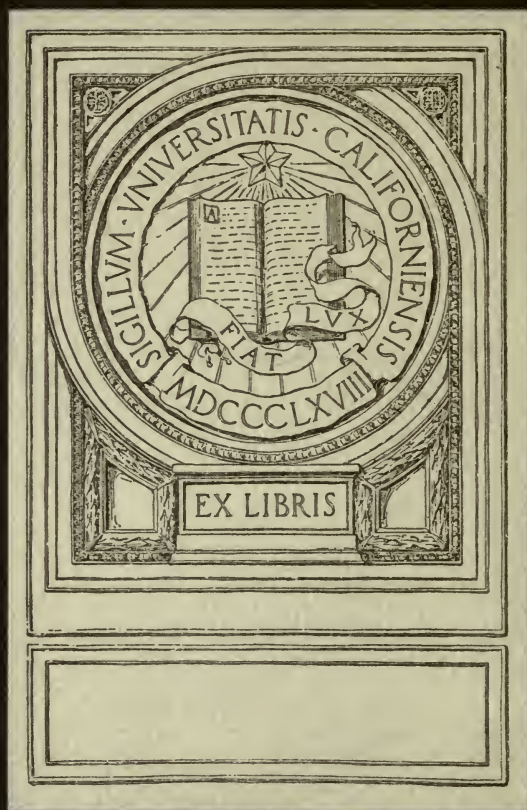
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The Facts About the Small Loan Business

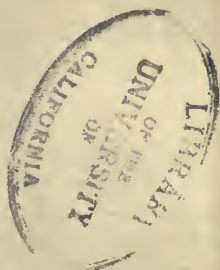
And the Scientific Rate
of Fair Charges

BY

REGINALD HEBER SMITH

of the Boston Bar

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GIFT



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The Facts about the Small Loan Business and the Scientific Rate of Fair Charges

The following memorandum was submitted to the Committee on Legal Affairs, of the Massachusetts General Court (Legislature) in March, 1921, as Counsel for the Legal Reform Bureau to Eliminate the Loan Shark Evil, Inc., New York.

A. The Loan Shark and the Era of Darkness

Ten or fifteen years ago it would have been impossible to present a comprehensive statement of facts. Nothing was known about the small loan business except that it had produced and was controlled by men who operated without the law or in defiance of law, who charged barbarous rates of interest, and who earned for themselves the obnoxious title of "loan-shark."

From time to time, in different communities, little groups of earnest and sincere people would wage an "anti-loan-shark campaign." There would be a great hue and cry in the newspapers. These campaigns were designed "to oust the loan-shark" and "to prevent the poor man from paying excessive rates of interest."

These people, though well-intentioned, knew nothing about the business. Instead of ascertaining the facts of the situation they were guided by hysteria and false sentimentality. What they were trying to do, although they did not realize it, *was to prohibit the poor man from borrowing.*

They failed. The loan-shark evil grew to vast proportions. The laws were flouted. The borrowers were shamefully oppressed. The situation everywhere drifted steadily from bad to worse.

B. Study and Research about the Business

Since 1910 a steadily increasing number of persons have studied the small loan business in order to find out what was the matter and to suggest constructive reforms that would accomplish something. Pioneer in this field was the Russell Sage Foundation which established a Division of Remedial Loans. Later came the Legal Reform Bureau to Eliminate the Loan-Shark Evil. There were also legislative investigations, as in Massachusetts and Illinois, and studies made by students of economics and sociology.

In this way the facts became known. This new group of reformers had the courage of their convictions. They stood by the truth. They incurred desperate opposition from the loan-sharks and, unfortunately, from many of the good elements in the community who had never learned the lesson

of their own failure and still believed that all you had to do was "oust the loan-shark."

But these new reformers, armed with their facts, got results. First one state and then another was persuaded to try their plan for *regulating* the small loan business. When the plan was tried it succeeded. Where the loan-shark was driven out he was out for good. Under the new plan no complaints were heard.

Today, those who have taken the pains to inform themselves about the small loan business, know that there is a plain, straightforward, simple solution for the "loan-shark problem." The solution works because it is practical instead of theoretical, it has been worked out by intelligence instead of by hysteria; in a word, it stands four-square with the facts of the situation.

C. The Controlling Facts

The fundamental facts, which can now be proved beyond the shadow of a doubt, are these.

1. *The Small Loan Business is a Necessity for the Borrower.*

Careful studies have been made to find out what sort of people borrow and what they borrow for.

For a long time it had been assumed, and many people still believe, that the borrowers are "drunks" and "bums" who borrow to get drunk or for other evil purposes. The actual facts are the exact reverse.

In 1914 the transactions of the Atlanta Loan and Saving Company were examined and it was found:

373 persons borrowed because of sickness.

43 persons borrowed because of death.

95 persons borrowed for home expense, as repairs, assessments, etc.

203 persons borrowed for domestic causes, as to pay debts, buy furniture, educate children, etc.

66 persons borrowed to meet emergencies brought about by unemployment, bank-failure, etc.

201 persons borrowed for miscellaneous expenses, as debts, moving expenses, etc.

105 persons borrowed in connection with their own small businesses.

56 persons borrowed because of their own extravagance or dissipation or that of others in the family.

16 persons borrowed to make good on bad investments, bad management, etc.

The experience of the National Federation of Remedial Loan Associations is to the same effect.

An office in New York was examined as to its 2,444 loans to see what

kind of men and women borrowed and what businesses they were in. The results showed:

Business of Employers of 2,444 Borrowers

U. S. Government, 353; New York City, 553; New York County, 21; New York State, 17; manufacturing, 246; mercantile, 289; financial, 83; insurance, 75; newspapers, 146; railroads, 70; steamship companies, 11; express, 19; telegraph and telephone, 32; oil companies, 9; real estate, 22; contracting and building, 31; warehousing, 11; grocery, 32; tailoring, 40; printing and publishing, 52; public utilities, 42; stationery, 10; restaurant, 9; medicine and surgery, 8; no business, 16; miscellaneous, 247.

Positions Held by 2,444 Borrowers

Clerks, 247; post office employees, 245; other U. S. employees, 95; state department and court employees, 24; city department and court employees, 177; New York County employees, 14; fire department, 198; police department, 114; proprietors and partners, 344; managers, 67; secretaries and stenographers, 44; foremen, 40; agents, 33; salesmen, 113; factory operators, 81; machinists, 34; inspectors, 33; tailors, 39; artisans, 24; pressmen, compositors, etc., 108; teachers, 18; doctors and dentists, 15; writers, 15; telegraphers and dispatchers, 18; bookkeepers and accountants, 64; conductors, 3; miscellaneous, 222.

Other investigations verified these results. A mass of information on this subject is contained in the *Handbook* of the Legal Reform Bureau, pages 53-84.

Governor Cox, of Ohio, has said:

"I make bold to say the legalized loan office is more of a necessity in an industrial community than, perhaps, a bank, for this reason; it is the poor man who, when he needs money, needs it worst."

The Massachusetts House of Representatives' Committee on Banks and Banking, in its admirable report on the small loan business in 1911, stated that it found many persons who borrowed because of necessity. See Bureau *Handbook*, page 42.

Clarence W. Wassam, Ph.D., who wrote an essay on the business in connection with his work at Columbia University, New York, said:

"The necessity for borrowing money for a short period of time is as old as the money economy under which it arises. It is common to the man of large and of small means, to the entrepreneur in business and to the man who works for a daily wage." (Bureau *Handbook*, page 45.)

The necessity of the business is recognized in the preambles of the laws of several states. Thus, in Virginia (Laws of 1918, Chapter 402), "It is recognized that that business of lending small sums of money upon security that is not acceptable to banks, *does and will exist* and there is a real need for the enactment of a law that will enable its continuance under proper supervision."

Judge Frazer of the Supreme Court of Pennsylvania in the case of *Pennsylvania v. Puder* said:

"The attempt in recent years to eradicate the evils of the so-called "money loan-sharks," by proceedings instituted in Philadelphia and Pittsburgh, is a matter of general public knowledge, and those who have given the matter close investigation and thought concede that a prohibition of the business does not accomplish the desired result, and that the only practical method of dealing with the subject is by proper regulation. Our legislature in a preamble to the Act of 1915, omitted from the pamphlet laws but shown in the certified copy of the act from the office of the Secretary of the Commonwealth, recognizes the situation and the impracticability of prohibiting the business of loaning money in small amounts and the need of regulation and supervision by law."

Other official statements recognizing the necessity of the business may be found in Bulletins of the Department of Public Welfare of the City of Chicago, for November, 1916, Vol. I, No. 4, page 23.

2. *The Small Loan Business is Clean Banking Business for the Lender.*

When it became apparent that the small loan business was a necessity, it became obvious that *the only constructive solution was to find a good substitute for the loan-shark*. To abolish or imprison one loan-shark and not provide any other place for the small man to borrow merely meant that another loan-shark would take his place. As our own Massachusetts Committee on Banks and Banking said in 1911:

"Your committee had impressed upon it that money-hunger, either the hunger of necessity or the hunger of wilful extravagance, could not be satisfied by pure loan laws which amounted to prohibition, any more than food-hunger could be gratified by pure-food laws which amounted to prohibition."

Professor Eubank, Professor of Sociology and Dean of the Y. M. C. A. College in Chicago, says:

"Before any campaign to oust the loan-shark can be effective there must be some agency equipped and prepared to take its place."

And he goes on with these incontrovertible statements:

"No campaign of extermination will ever succeed. No amount of condemnation will ever be effective. No negative laws, however drastic, can permanently relieve the present abuses. As long as we have citizens who want to borrow money—and we shall always have them—so long will some loan agencies continue, and it is only the better kind that will succeed in driving out the worse."

When it was discovered that the small loan business consisted of honest men and women who borrowed for honest reasons, it became clear that *the small loan business was nothing more or less than small banking business*. That seems clear now but it is only recently that it has become clear.

And then came the next step. Why should not honest men put legitimate capital into the business and place the whole business as high in public esteem and confidence as the banking business?

For, as Hon. Edwin R. Cox of the Pennsylvania Legislature has said:

"There is no reason why a small loan institution cannot be made as responsible as a Federal Reserve Bank."

THE LICENSED INDUSTRIAL LENDER

A. Various Substitutes for the Loan-Shark

To take the place of the old-fashioned loan-shark, three types of offices have come into being (Cf. Bulletin Dept. of Public Welfare, City of Chicago for Nov., 1916, page 31):

- (a) The purely charitable organization.
- (b) The coöperative organization.
- (c) The straight business organization.

1. *The Charity.*

The first of these, the charity, has played only an insignificant part in solving the small loan problem and for the obvious reason that the average borrower is not a "dead-beat" or a "bum." Nine times out of ten he is a self-supporting, self-respecting workman. He may need a loan just as a rich man or a merchant may need a loan but he does not intend to be treated as a pauper, or a beggar, or as an object of charity. *The average American small borrower wants to go to some reputable place, like a bank, get a loan because he is a good moral risk, pay the fair rate of interest, in short to have it a straight out and out business transaction.* (See a pamphlet called "Why the Small Loan Business is Essential," published by People's Provident Association, Kentucky.)

This charitable type of organization may have done some good, but as a permanent solution of the loan-shark evil it has had only a small part and therefore may be dismissed.

2. *Credit Unions.*

The second, the coöperative organization, is more interesting. The credit union is the best example. The credit union movement has been a great success in Italy; there are successful credit unions in the United States, but it is a fact that, generally speaking, the credit union movement has not developed as rapidly in this country as had been hoped.

It is not pertinent here to inquire whether this is because Americans take slowly to the coöperative idea or what the trouble may be. The credit

union has much to recommend it. It is entitled to encouragement. It may ultimately be the final solution.

But for all present and practical purposes the credit union alone is not an adequate substitute for the loan-shark.

There are not enough credit unions to fill the need.

The Boston *Post* said editorially on April 28, 1920:

"The credit union is the best answer to the small loan problem, and it would be a complete answer if there were, say 1,500 of the unions in the state instead of 60."

To increase from 60 to 1,500 is an increase of 2,600 per cent. That cannot be accomplished overnight. While the legislature should do all it can to encourage the credit-union idea, it must recognize that for immediate, practical purposes, some other solution is necessary.

3. *The Licensed Lender.*

That solution has been found in the licensed industrial lender. The licensed industrial lender is nothing more or less than a bank which makes small loans as a business proposition.

B. Why a Special Business for Small Loans?

The industrial lender or the licensed small-loans office has been the one practical, business-like, effective solution. He *competes* with the unlicensed lender, drives him out, and keeps him out.

Some persons have thought that there ought not to be special offices for small borrowers and have said the banks should do the business. Governor McCall, of Massachusetts, urged this in his inaugural address in 1916. A newspaper reporter consulted the presidents of all the leading banks in Boston and stated:

"Presidents and managers are of one opinion in this matter. That the risk is too great in many cases, that separate departments would be required to handle the business, and that for these reasons there would be little or no profit in the business for the banks." (From copy of article on file in Massachusetts Supervisor of Loans' office.)

Samuel Spring, Esq., in an article on Banking published in the current *North American Review* says this:

"Modern business would perish without the free use of credit. No one today would say even to the small business man—"neither a borrower nor a lender be." Yet when it is said that the worker or farmer needs a small loan on his unsecured note and is forced to go to the loan-shark because no bank will accommodate him, most bankers conclude that a thrifty worker does not need to borrow. It serves him right, is the verdict, if he has to pay a grotesque rate of interest; the lesson will teach him thrift. Yet how shallow such a conclusion is. Misfortune, unemployment, sickness, the needs of

a large family—these set back workmen to conditions of piercing need. . . Moreover there are seasonal demands upon the worker just as there are upon the farmer or the business man. The fall, with the need of storing up coal, clothing the children for school, and preparing for the winter represents a genuine strain in the great bulk of American homes. In brief, we have here a repetition of the familiar credit needs of modern economic life—only on a Lilliputian scale.”

The fact remains that existing banks, both urban and rural, cannot handle small loans at a profit and that as a result there is a gap in the present banking structure.

Very recently it has been suggested that the state should do this business. It is not necessary to waste time or space pointing out that this is no practical immediate solution. On this point Senator John Dailey, of Illinois, said last year (Year Book of American Industrial Lenders' Association in 1920, page 71):

“I am going to sound a note of warning. The socialist and the demagogue are active. The socialists are asking for state insurance and the state's participation in private business. They will ask that the state take charge of the lending of money. See if they don't. You want to be on your guard. Your business is a private enterprise; it is as legitimate and proper a function of private endeavor as any other class of business. The management and conduct of purely individual and private business by the government itself is the socialistic program, no matter how disguised it may be, no matter whether it is advocated by soap-box orators, parlor socialists, or bolshevistic professors.”

It is clear that the small loan business is akin to banking business *but has so many distinct elements that it is most wisely conducted as a distinct business.*

This is the history and the reason for the existence of the licensed small loan lender.

C. Public Opinion and the Licensed Lender

Wherever the licensed lender has been allowed to conduct the small loan business the loan-shark has been driven out. Where licensed lenders operate there are no complaints about extortion or usury (Bureau *Handbook* page 24).

There is only one reason why the licensed lender has not driven the loan-shark out of every state in the Union. That reason is a mistaken public opinion. Of course, the loan-shark fights the licensed lenders bitterly; but as they cannot fight in the open and are forced to resort to bribes and trickery, they have been given short shrift by state legislators. Loan-shark opposition has been an asset in the campaign to have the business done by licensed lenders.

But public opinion, here and there, has been a stumbling block. In

some states there has been a carrying over of the old attitude of hysteria and false sentimentality. People have said: Loan-sharks were in the small loan business; licensed lenders are in the small loan business; hence licensed lenders are loan-sharks. Upright and sincere people have not troubled to get the facts and thus they have confused licensed lenders with loan-sharks. *This confusion in the minds of honest people* has been the one thing which has saved the loan-shark from extinction.

Hon. Raymond B. Fosdick, Chairman of the Federal Commission on War Camp Community Service in the United States and France during the world war, in an address before the Academy of Political Science, New York, November 11, 1911, stated:

“ . . . *Our main obstacle is the ignorance of the virtuous.* It is the belief that banking rates of interest can be imposed on a business which is conducted without security. It is the blind opinion that you can run a small loan business at 6 per cent per annum and make it pay. It is the false hope that laws prohibiting an interest in excess of 6 per cent can be imposed. Before adequate legislation can be had, these illusions must be destroyed, and the only way in which they can be destroyed is by a thorough knowledge of the facts brought about through an educational campaign. . . ”

In 1920 an attempt was made to drive the loan-shark from Kentucky. The drive was defeated by this “ignorance of the virtuous.” See the Louisville (Ky.) *Herald* for February 11, 1920 (editorial) and the *Courier Journal* for the same date (editorial).

The rub of the situation is this. The licensed lender goes into the small loan business as a legitimate enterprise. He is a straightforward business man. *He will not disobey or evade the law. He will comply with every clause of the law, If he does not make a decent profit he does not break the law, but he does get out of the business.*

The state must regulate the business. That is agreed on all sides. Regulation involves fixing the rate of interest which may be charged.

That is the difficulty. If the rate is fixed too low, the licensed lender loses money and gets out of the business, and when he gets out, the loan-shark slips back in again.

Before going on to examine what the fair rate must be it is essential to nail down the fact that the licensed lender and the loan-shark are as far apart as the two poles; they have nothing in common, they are irreconcilable foes, where one exists the other cannot. They are as distinct as a bank is distinct from a bucket shop.

The Chicago Department of Public Welfare, November (1916) Bulletin, called “the loan-shark number” on page 31 says of the licensed lender companies:

“These organizations keep within the law and so are not to be confused with the loan-shark whose characteristic is that of usurious money-lending.”

The Superintendent of Banks for Ohio, speaking of the law which made it possible for the licensed lenders to operate in Ohio, said (The Loan-Shark Evil, Bulletin published by the Legal Reform Bureau in February, 1919, see page 2):

"The operation of the restrictive provision of the law has resulted in putting out of business many money-lenders who had lived by the unlawful profits of their investments. Men of high character and correct business methods, satisfied with the lawful returns upon their loans, have taken their place.

"The law has put dignity and confidence into the loan business heretofore unknown, so that loan transactions stand upon the same footing as other business transactions and neither the borrower nor the lender has anything to cover up or be ashamed of."

In cities where they have offices, the licensed lenders are esteemed members of the local chambers of commerce. Their national association is a member of the United States Chamber of Commerce.

In about half the states public opinion has been educated and understands that the licensed lender is the solution of the loan-shark problem. In those states the law is adequate.

In Massachusetts it would seem that many persons still are confused in their minds, for the Massachusetts law is not adequate to attract sufficient loan capital to adequately supply the legitimate demands for industrial loans of \$300 or less in even the larger centers of population, and after all these years most of the towns and rural communities are without any legitimate small loan service.

ADEQUATE LEGISLATION

A. The Scientific Rate

The vital point in legislative regulation is the establishment of an adequate rate.

The scientific rate is now known to be 3½ per cent per month.

This fact is most simply proved as follows:

1. The two national remedial organizations interested in improving the small loan business have drafted model laws:

The Division of Remedial Laws of The Russell Sage Foundation in its "Uniform Law" fixes the rate of 3½ per cent per month.

The Legal Reform Bureau to Eliminate the Loan-Shark Evil has also fixed the rate at 3½ per cent per month as necessary in all the circumstances.

2. All states which have enacted or amended remedial loan laws since 1916 have established the $3\frac{1}{2}$ per cent rate or its equivalent by supplementing certain fee charges to the interest rate. These states are

Arizona	Indiana	Virginia
Connecticut	Iowa	New Hampshire
Georgia	Maine	Ohio
Illinois	Maryland	
Pennsylvania	Michigan	

In March, 1921, the $3\frac{1}{2}$ per cent law was enacted in Iowa, the vote in the House being unanimous and all but three in the Senate.

3. The $3\frac{1}{2}$ per cent rate is endorsed by unimpeachable and unbiased sources.

The $3\frac{1}{2}$ per cent law was introduced into the Connecticut legislature in 1919, with the endorsement of nearly every charity in the state. (Copies of the letters of endorsement have been printed and a set has been given to the Senate Chairman of the Committee on Legal Affairs.)

So, also, in Kentucky the $3\frac{1}{2}$ per cent bill was sponsored by the social agencies of the state. (A set of copies of those letters of endorsement has also been given to the Senate Chairman of the Committee on Legal Affairs.)

While the $3\frac{1}{2}$ per cent battle was on in Kentucky, telegrams were sent from licensing officials of Illinois, Indiana, Pennsylvania, Connecticut, and Maryland stating that the $3\frac{1}{2}$ per cent law had worked well in those states. (Copies of these telegrams have been given to the Senate Chairman of the Committee on Legal Affairs.)

Prof. E. E. Eubank, dean of the Y. M. C. A. College in Chicago says:

"It has been determined by careful studies that $3\frac{1}{2}$ per cent is as low a rate as can be made." (First Report of Department of Trade and Commerce, State of Illinois (1918), page 8.)

Robert W. Sharp, New York, author of "The Chattel Mortgage Loan Business—The Disease and the Remedy," says:

"The rate legalized in several states, namely $3\frac{1}{2}$ per cent per month, is equitable." (Pamphlet published by Legal Reform Bureau, February, 1919, entitled "Necessary Rate for Small Loans," see page 8.)

A scientific statement setting out accounts of actual loan offices may be seen in the 1919 Year Book of the American Industrial Licensed Lenders' Association, page 38.

See also the Bureau *Handbook*, pages 114-118; also pamphlet on "Why a Higher Rate?" etc., by C. S. Francis, published in 1919, by Legal Reform Bureau.

4. The $3\frac{1}{2}$ per cent rate has been stated to be the scientific rate by the metropolitan newspapers of Massachusetts.

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The Boston *Herald* said editorially on April 23, 1920:

"The Law today allows the lender to collect interest at the rate of 3 per cent on loans of less than \$300. To advance this charge by $\frac{1}{2}$ per cent is said to conform to the results obtained by an extensive survey of the business covering many American cities; $3\frac{1}{2}$ per cent *is found to be the scientific rate*. . . the measure ought to be restored by amendment to its original form."

The Boston *Post* said editorially on April 22, 1920:

"The present law permits a charge of 3 per cent on loans under \$300. The ostensible purpose of the new bill is to allow an increase to $3\frac{1}{2}$ per cent a month on such loans. There seems to be no objection to that for *it has been demonstrated by careful experiment in various parts of the country that $3\frac{1}{2}$ per cent is the 'scientific rate.'*"

The Boston *Evening Transcript* said editorially on April 21, 1920:

"An increase from 3 to $3\frac{1}{2}$ per cent a month as the authorized interest charge would meet all reasonable requirements."

The Boston *Evening Record* said editorially on April 21, 1920:

"The legal rate on small loans in this state has been 3 per cent. Experience has suggested that this is too low for brokers to do business at a profit. An increase to $3\frac{1}{2}$ per cent was petitioned for. No objection was registered against this petition. . . .

"The $3\frac{1}{2}$ per cent rate is established in Connecticut, Maine, Pennsylvania, Illinois, Indiana, Maryland, Georgia, and Iowa. It is believed to be adequate. *In the light of such evidence at hand the legislature might properly grant the proposed increase from 3 to $3\frac{1}{2}$ per cent here.*"

The Boston *American*, on April 22, 1920, featured a news story based on an interview with Walter S. Hilborn, Esq., and saying that the $3\frac{1}{2}$ per cent rate was proper but that any higher rate was improper.

B. Comment on the $3\frac{1}{2}$ Per Cent Rate

When it is stated that the legal rate cannot be fixed lower than $3\frac{1}{2}$ per cent per month or 42 per cent per year, that rate sounds high to the man who can step into a bank, put up collateral and get his loan at 6-7-8 per cent per annum.

There are three big differences which, after a little reflection, are clear:

1. The risk involved in the small loan is much greater. The small loan is a personal risk. The bank loan is against collateral or business assets.
2. The licensed lender cannot charge the borrower for the expenses of the loan, whereas the banks can and do. The loans are for substantial sums falling due at one time.

A savings bank lends on a real estate mortgage. It looks up the title. It charges the borrower with the lawyer's bill for examining title or title company's fees for insuring title. The loans are for large sums. A licensed lender lends on character. He looks up the borrower's reputation, employment, etc. He *cannot* charge the borrower with that expense. The loans are for small sums repayable on weekly or monthly instalments for about a year.

The 3½ per cent rate is fixed to include both interest and all expenses.

3. In proportion to the amounts loaned, the percentage of cost of conducting loans business is far greater. Suppose it costs a bank \$10 to make a \$1,000 loan for three months. At 6 per cent the bank received \$15.00 and makes a profit of \$5.00.

It costs just about as much to hand a hundred dollar bill out to a borrower as a thousand dollar bill. Rent, overhead, bookkeepers' wages, stenographers' wages, stamps, telephone, stationery are all about the same in the small loan office as in the bank. But suppose the cost is only \$9.00 (10 per cent cheaper than the bank). At 3½ per cent the licensed lender gets \$10.50 for the three months' interest on \$100. His profit is only \$1.50. This is a profit on his capital of just 6 per cent per annum. As all costs are included in the rate fixed by law, the rate obviously must be high enough to include and cover all legitimate costs.

C. The Practical Answer of Experience

After all, practical experience is a better guide for legislative action than mere theoretical reasoning by persons without actual experience.

The practical experience in a score of states is this: (Cf. Bureau *Hand-book*, page 24)

When the rate is 3½ per cent the small loan business is done by licensed lenders who employ clean methods only; there are no loan-sharks; there are no complaints of oppression, and licensed lenders coöperate with the officials in policing the business.

When the rate is substantially lower than 3½ per cent, the licensed lender cannot enter or stay in business, so the loan-shark takes the licensed lender's legitimate place, exorbitant interest and fees are charged; the loan business is done secretly; the provisions of the loan law are generally violated; there is inadequate capital available for loan service.

In Alabama the legal rate of interest allowed was fixed at ½ per cent per month. A license fee of \$2,000 per annum is required. No licensed lender could do business under these conditions. The loan-sharks do all the business and charge 40 per cent per month. (See Welfare Bulletin of the City of Chicago for November, 1916, page 11.)

In Colorado, where the legal rate is 1 per cent per month, the law cannot be enforced. There is no licensed lender in the state; the loan-sharks charge what they please, which includes recompense for their risk of violating the criminal sections of the law. Therefore the law makes a bad condition worse.

In Illinois, before the $3\frac{1}{2}$ per cent law was adopted, the legal rate was 7 per cent and the result was that only loan-sharks did the business. (See Chicago Department of Welfare Bulletin, pages 11, 12.) When the $3\frac{1}{2}$ per cent bill was before the Illinois legislature in 1917, U. S. Judge Kenesaw M. Landis wrote as follows (See First Report Department of Trade and Commerce, State of Illinois, page 6):

"Dear Senator Austin: I have been asked to write to you about a bill to regulate loan agencies. Such judgment as I have is the result of what I have learned during my service on the bench.

"Of course this ($3\frac{1}{2}$ per cent) seems a tremendous rate of interest for money but we are dealing with a very practical question. The loans are small in amount and extend for a short period of time in view of which it is my judgment that a $3\frac{1}{2}$ per cent per month rate is a just rate.

"At all events it certainly is better than 20 per cent a month which, unless you gentlemen do something, will continue to be exacted."

Very truly yours,

KENESAW M. LANDIS

The Chicago Tribune said:

"Forty-two per cent a year sounds usurious but we must remember that we are confronted with a condition, not a theory, and that the present condition is ten times or more worse than the proposed remedy. Loaning on wages is a precarious occupation and high rates of interest are necessary."

In Kentucky the legal rate of interest was and is 6 per cent. The loan-sharks thrive by charging generally a rate of 300 per cent per annum. In 1920 a drive was made to get the scientific rate of $3\frac{1}{2}$ per cent per month. Many good people in the state thought that too high, and opposed it, and by so doing kept their state in the hands of the loan-sharks and deprived the public of decent and fair small loan service.

The Kentucky Conference of Social Work appointed a Committee on the small loan business. In a printed document called "Smashing the Loan-Shark" (See page 2, 127) the Committee states that the rates charged in Kentucky for small loans were

15 to 50 per cent a month.

185 to 600 per cent a year.

The Louisville Herald for February 11, 1920, put the thing in a nutshell when it said editorially:

It is not a question of 6 or 10 per cent versus 42 per cent but of 42 per cent versus 1,000 per cent. And that is a tremendous, a liberating influence.

Revised February, 1922.

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